

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 AEC-11 AID-20 CEA-02

CIAE-00 CIEP-03 COME-00 DODE-00 FEAE-00 FPC-01 H-03

INR-11 INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01

SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00 FRB-03 PA-04

USIA-15 PRS-01 AF-10 ARA-16 NEA-14 DRC-01 XMB-07

OPIC-12 LAB-06 SIL-01 SAJ-01 NIC-01 SY-04 USSS-00

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INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS UNN

USNATO BRUSSELS 279

AMEMBASSY CANBERRA

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

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AMEMBASSY ROME

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMEMBASSY VIENNA

AMEMBASSY WELLINGTON

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E.O. 11652: N/A

TAGS: ENRG, EGEN, EFIN, SW

SUBJECT: SWEDEN - ECONOMIC TRENDS, ENERGY, AND MONETARY AFFAIRS

REF: STOCKHOLM 4091

1. SUMMARY. DURING MY COURTESY CALL, GOVERNOR OF BANK OF SWEDEN, KRISTER WICKMAN, DIGRESSED FREELY ON WHAT HE IDENTIFIED AS KEY ISSUES: (A) HE THOUGHT WORLD-WIDE INFLATION WOULD ABATE EVEN WITHOUT CONCERTED INTERNATIONAL EFFORT, AND THAT FOR SWEDEN, AN INCOMES POLICY WAS BEST SUITED TO DEAL WITH IT; (B) THAT OIL UNCERTAINTIES COULD BE EXACERBATED IF ARAB LEADERS WERE TO TURN MORE SOPHISTICATED IN DEALING WITH THE CONSUMERS; AND (C) THAT HE WAS CONCERNED OVER OUR ABILITY TO RESPOND ADEQUATELY TO PROBLEMS OF BANK FAILURES, RECYCLING OF OIL MONEY, ETC. SWEDEN'S PRESENT ECONOMIC OUTLOOK IS GOOD, HE THOUGHT, BUT THERE WILL BE A SLOW-DOWN NEXT YEAR. END SUMMARY.

2. DURING MY CALL ON SEPTEMBER 17, WICKMAN COMMENTED ON A NUMBER OF ECONOMIC PROBLEMS FACING SWEDEN AND THE WORLD AT LARGE. ON INFLATION, HE SAID THE RECENT PRICE INCREASES REFLECTED A CONJUNCTION OF A NUMBER OF EVENTS -- STRONG MARKET DEMAND, LOW PRODUCTION CAPACITY, COST-PUSH, AND THE OIL CRISIS -- AND HE THOUGHT, EVEN WITHOUT CONCERTED INTERNATIONAL EFFORT, IN THE COMING PERIOD INFLATION WILL "CALM DOWN". WHEN I ASKED WHETHER INFLATION REFLECTED MORE COST-PUSH THAN DEMAND-PULL, WICKMAN SAID THERE WERE INCREASING INDICATIONS THAT COST-PUSH WAS BECOMING MORE IMPORTANT. WICKMAN INDICATED UNCERTAINTY OVER U.S. POLICIES ON INFLATION AND SUGGESTED THAT WE OUGHT TO CONSIDER AN INCOMES POLICY, NOTING IN THIS REGARD THAT SWEDEN WOULD STICK TO ITS INCOMES POLICY WHICH INITIALLY WAS BASED ON AN AGREEMENT BETWEEN CENTRAL LABOR AND EMPLOYER ORGANIZATIONS, BUT NOW IS GUIDED BY THE GOVERNMENT. I COMMENTED THAT AN INCOMES POLICY WOULD BE MORE DIFFICULT -- IF NOT IMPOSSIBLE -- FOR THE U.S. TO IMPLEMENT, FOR WE WERE NOT ENDOWED WITH CENTRAL LABOR OR EMPLOYER ORGANIZATIONS OF LIMITED OFFICIAL USE

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TYPE FOUND IN SWEDEN.

3. WICKMAN MENTIONED UNCERTAINTIES AND EDGINESS IN FINANCIAL MARKETS OF THE WORLD AND BROUGHT UP SUBJECT OF "GOLD". HE SAID AT RECENT FINANCE MINISTERS' MEETING IN PARIS OF THE BIG FIVE (OR SIX), THE SUBJECT OF "GOLD" WAS DROPPED FROM THE AGENDA, AND HE WONDERED WHETHER THIS WAS BECAUSE OF U.S. PRESSURES. WITHOUT RESPONDING TO WICKMAN'S

QUESTION, I SAID I SURMISED THAT QUESTION OF "GOLD" WAS OF CONCERN NOT ONLY TO THE USG, BUT ALSO TO THE U.S. PUBLIC. GOOD MANY AMERICANS ARE DUBIOUS ABOUT THE ROLE GOLD SHOULD PLAY IN THE INTERNATIONAL MONETARY SYSTEM. WICKMAN APPEARED TO BE ASKING WHETHER USG ATTITUDE TOWARD ROLE OF "GOLD" IN INTERNATIONAL MONEY MARKETS MIGHT BE CHANGING.

4. TURNING TO THE OIL PROBLEM, HE ASKED RHETORICALLY: "WHAT WOULD THE OIL SITUATION HAVE BEEN LIKE IF THE ARAB AND OTHER OIL PRODUCERS WERE MORE SOPHISTICATED IN DEALING WITH THIS MATTER?" ALSO, "HOW ABOUT THE FUTURE?" HE INTIMATED THAT THE ARABS COULD HAVE USED THEIR CONTROL OVER OIL TO EXACERBATE THE PROBLEMS OF DEVELOPED COUNTRIES AND, IN FACT, THE NEXT ROUND, IF THEY APPROACH PROBLEM IN A MORE SOPHISTICATED WAY, E.G. QADHAFI MANNER, MIGHT BE EVEN MORE DIFFICULT. I MENTIONED THAT THE PROPOSALS FOR AN INTEGRATED ENERGY PROGRAM (IEP) AND THEIR IMPLEMENTATION ARE CONSTRUCTIVE STEPS TOWARD DEALING WITH AN EMERGENCY. WICKMAN APPEARED IN GENERAL AGREEMENT. WICKMAN THEN ADDED THAT POLITICAL MATURITY OF OIL PRODUCING COUNTRIES WAS MOST IMPORTANT IN DEALING WITH PROBLEM, BUT A CHANGE OF GOVERNMENT IN ANY OF THE OIL PRODUCING COUNTRIES COULD CHANGE SITUATION DRASTICALLY. HE NOTED THAT WHEN OIL CRISIS OCCURRED LAST WINTER, THE EUROPEAN COMMUNITIES WERE UNABLE TO COOPERATE EFFECTIVELY; HE THEREFORE HAD SOME DOUBTS WHETHER SITUATION WOULD BE DIFFERENT THE NEXT TIME, IF CRISIS SHOULD ARISE. I NOTED THAT SOME COUNTRIES HAD TRIED TO MAKE BILATERAL ARRANGEMENTS; BUT THE ARAB PRODUCERS DID NOT, IN FACT, PLAY FAVORITES.

5. ON RECYCLING OF OIL MONEY, WICKMAN REVIEWED THE LARGE SUMS OF MONEY INVOLVED (\$26 BILLION IN FIRST 8 MONTHS; \$40 BILLION BY END OF YEAR) AND SAID BULK OF THESE FUNDS LIMITED OFFICIAL USE

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MIGHT FLOW TO THE NEW YORK MARKET TO BE INVESTED IN SHORT AND MEDIUM TERM SECURITIES. THEN, HE REFERRED TO THE BANK FAILURES IN GERMANY AND EXPRESSED UNHAPPINESS THAT WEST GERMAN GOVERNMENT DID NOT TAKE STRONGER ACTION AND INTERVENE. HE THOUGHT WE WERE NOT YET OVER THE FALL-OUT EFFECT OF THESE BANK FAILURES. HE NOTED THAT, IN SWEDEN, THE SWEDISH HANDELSBANK ALONE HAS A CLAIM FOR \$7 MILLION.

6. ON THE SWEDISH SCENE, WICKMAN AGREED THAT THE BALANCE OF TRADE AND PAYMENTS HAD DETERIORATED SHARPLY DURING THE PAST YEAR AND THAT THE PAYMENTS DEFICIT FOR THIS YEAR WOULD APPROXIMATE SKR 2.0 BILLION (\$450 MILLION). HE CONFIRMED THE IMPRESSIONS WHICH I HAD GAINED FROM TALKING TO SWEDISH BUSINESS LEADERS THAT DEMANDDOMESTICALLY AND IN THE INTERNATIONAL MARKET WAS STILL BUOYANT AND PROSPECTS

FOR CERTAIN SECTORS (STEEL AND ENGINEERING THOUGH NOT SHIPYARDS)
WERE STILL GOOD FOR THE NEAR TERM. HE DID SEE A SLOWING DOWN IN THE
ECONOMY NEXT YEAR, BUT DID NOT FORESEE ANY SERIOUS RECESSION FOR
SWEDEN, PROVIDED FOREIGN MARKETS ARE STABLE.

8. IN CLOSING, WICKMAN AGREED THAT AMERICAN-SWEDISH
RELATIONS WERE "ON TRACK". WICKMAN SAID HE WOULD BE
DEPARTING SEPTEMBER 27 TO ATTEND THE IMF MEETING IN
WASHINGTON.
STRAUSZ-HUPE

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